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**山東墨龍石油機械股份有限公司**

Shandong Molong Petroleum Machinery Company Limited\*

*(A Sino-foreign joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 568)**

## **DISCLOSEABLE TRANSACTIONS**

### **SALE AND PURCHASE AGREEMENTS AND LEASEBACK AGREEMENTS**

On 10 April 2019 (after trading hours), the Company, and the Lessor have entered into Sale and Purchase Agreement I and Sale and Purchase Agreement II, pursuant to which the Company has agreed to sell and the Lessor has agreed to purchase Leased Assets I and Leased Assets II at a consideration of RMB85,000,000 and RMB85,000,000 respectively.

On the same day (after trading hours), the Company and the Lessor have entered into Leaseback Agreement I and Leaseback Agreement II, pursuant to which the Lessor has agreed to lease back Leased Assets I and Leased Assets II respectively to the Company during the Lease Term. Upon expiry of the Lease Term and subject to the performance of all obligations by the Company under Leaseback Agreement I and Leaseback Agreement II, the Lessor shall sell the ownership of Leased Assets I and Leased Assets II back to the Company at a total nominal consideration of RMB50 and RMB50 respectively.

As one or more of the relevant applicable percentage ratios in respect of each of (i) the Sale and Purchase Agreements; and (ii) the Leaseback Agreements are more than 5% but all are less than 25%, the transactions contemplated under each of (i) the Sale and Purchase Agreements; and (ii) the Leaseback Agreements constitute a discloseable transaction of the Company and is subject to the reporting and announcement requirements but is not subject to Shareholders' approval under Chapter 14 of the Listing Rules.

## **INTRODUCTION**

On 10 April 2019 (after trading hours), the Company, and the Lessor have entered into Sale and Purchase Agreement I and Sale and Purchase Agreement II, pursuant to which the Company has agreed to sell and the Lessor has agreed to purchase Leased Assets I and Leased Assets II at a consideration of RMB85,000,000 and RMB85,000,000 respectively.

On the same day (after trading hours), the Company and the Lessor have entered into Leaseback

Agreement I and Leaseback Agreement II, pursuant to which the Lessor has agreed to lease back Leased Assets I and Leased Assets II respectively to the Company during the Lease Term. Upon expiry of the Lease Term and subject to the performance of all obligations by the Company under Leaseback Agreement I and Leaseback Agreement II, the Lessor shall sell the ownership of Leased Assets I and Leased Assets II back to the Company at a nominal consideration of RMB50 and RMB50 respectively.

## **THE SALE AND PURCHASE AGREEMENTS**

The principal terms of the Sale and Purchase Agreements are set out as follows:

### **Common Terms of Sale and Purchase Agreement I and Sale and Purchase Agreement II**

#### Date

10 April 2019 (after trading hours)

#### Parties

- (i) the Company, as vendor; and
- (ii) Cosco Shipping Leasing Co., Ltd. (中遠海運租賃有限公司), as purchaser.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as at the date of this announcement, the Lessor and its ultimate beneficial owner are third parties independent of and not connected with the Company and its connected persons.

### **Considerations**

#### Sale and Purchase Agreement I

Pursuant to Sale and Purchase Agreement I, the Company has agreed to sell and the Lessor has agreed to purchase Leased Assets I owned by the Company at the consideration of RMB85,000,000.

The consideration was determined after arm's length negotiation between the parties with reference to the book value of approximately RMB85,000,000 of Leased Assets I as at 31 December 2018. The consideration shall be paid in cash.

#### Sale and Purchase Agreement II

Pursuant to Sale and Purchase Agreement II, the Company has agreed to sell and the Lessor has agreed to purchase Leased Assets II owned by the Company at the consideration of RMB85,000,000.

The consideration was determined after arm's length negotiation between the parties with reference to the book value of approximately RMB85,000,000 of Leased Assets II as at 31 December 2018. The consideration shall be paid in cash.

## **Ownership of the Leased Assets**

Upon the satisfaction of all the condition precedents, the Lessor shall pay the considerations under the Sale and Purchase Agreements net of deposit (see below) within a reasonable duration of time to an account designed by the Company. Upon the payment of considerations (net of deposit), the ownership of the Leased Assets shall pass to the Lessor.

## **Condition Precedents**

The payment of considerations (net of deposit) under the Sale and Purchase Agreements are conditional upon, inter alia, that:

- (i) the Leaseback Agreements, Sale and Purchase Agreements, the Guarantee Agreements (as defined below) having been signed and received by the Lessor;
- (ii) the board resolutions of the Company approving the transactions contemplated under the Sale and Purchase Agreements and the Leaseback Agreements having been received by the Lessor;
- (iii) the relevant document proofs of the Leased Assets having been received by the Lessor; and
- (iv) the announcement(s) of the Company in relation to the sale and leaseback operations having been received by the Lessor.

## **THE LEASEBACK AGREEMENTS**

The principal terms of Leaseback Agreement I and Leaseback Agreement II are as follows:

### **Common Terms of Leaseback Agreement I and Leaseback Agreement II**

#### Date

10 April 2019 (after trading hours)

#### Parties

- (iii) the Company, as lessee; and
- (iv) Cosco Shipping Leasing Co., Ltd. (中遠海運租賃有限公司), as lessor

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, as at the date of this announcement, the Lessor and its ultimate beneficial owner are third parties independent of and not connected with the Company and its connected persons.

#### Lease Term

The Lease Term shall commence from the date when the first instalment of the consideration is

settled in accordance with the Sale and Purchase Agreements and last for 36 months.

## **Rent and Other Payments**

### Leaseback Agreement I

Pursuant to Leaseback Agreement I, Leased Assets I shall be leased back to the Company during the Lease Term at a total rent of RMB93,555,625 payable in 12 quarterly instalments and each instalment to be adjusted with reference to the benchmark interest rate (the “**Benchmark Interest Rate**”) published by the People’s Bank of China during the same period.

The Company shall pay a deposit of RMB10,000,000, which shall be set off against the consideration payable by the Lessor under Sale and Purchase Agreement I. Such deposit will be returned to the Company within five Business Days after the Lessor issuing a certificate to the Company certifying that the ownership of Leased Assets I has been passed to the Company.

### Leaseback Agreement II

Pursuant to Leaseback Agreement II, Leased Assets II shall be leased back to the Company during the Lease Term at a total rent of RMB93,555,625 payable in 12 quarterly instalments and each instalment to be adjusted with reference to the Benchmark Interest Rate during the same period.

The Company shall pay a deposit of RMB10,000,000, which shall be set off against the consideration payable by the Lessor under Sale and Purchase Agreement II. Such deposit shall be returned to the Company within five Business Days after the Lessor issuing a certificate to the Company certifying that the ownership of Leased Assets II has been passed to the Company.

## **Ownership of the Leased Assets during and after the Lease Term**

The Leased Assets constitute certain machinery equipment of the existing production lines]owned by the Company. The Leased Assets by themselves could not generate revenue for the Group. The book values of Leased Assets I and Leased Assets II as at 31 December 2018 were approximately RMB85,000,000 and RMB85,000,000 respectively. During the Lease Term, the Leased Assets will be owned by the Lessor and the Company will be entitled to possess and use the Leased Assets.

Upon expiry of the Lease Term and subject to the full performance of the obligations by the Company under the Sale and Purchase Agreements and Leaseback Agreements, the Lessor shall sell the ownerships of Leased Assets I and Leased Assets II back to the Company at the nominal considerations of RMB50 and RMB50 respectively.

## **Guarantee**

Mr. Zhang En Rong, substantial Shareholder of the Company, shall provide guarantees to the Lessor for the Company’s performance of its obligations under the Leaseback Agreements by entering into separate guarantee agreements (the “**Guarantee Agreements**”). Mr. Zhang does not take any security from the Group for such guarantees.

## **Early Termination**

The Company may terminate the Leaseback Agreements before expiry of the Lease Term if it has provided a written notice to the Lessor and obtained consent from the Lessor. Subject to the Lessor's consent, the Company shall pay the Lessor an early termination payment, which comprises:

- (i) all rents and other payments payable up to the early termination date;
- (ii) all remaining rents (net of deposit) after the early termination date discounted by a discounting ratio determined based on the Benchmark Interest Rate; and
- (iii) the nominal consideration of the Leased Assets under the Sale and Purchase Agreements.

After having received the above payments, the Lessor will transfer the ownership of the Leased Assets to the Company within 15 Business Days.

## **REASONS FOR AND BENEFIT OF ENTERING INTO THE SALE AND PURCHASE AGREEMENTS AND THE LEASEBACK AGREEMENTS**

The entering into of the Sale and Purchase Agreements and Leaseback Agreements and the transactions contemplated thereunder would enable the Company to obtain financing through the sale and leaseback of a part of the machinery equipment of production lines. The Group considers that the transactions under the Sale and Purchase Agreements and Leaseback Agreements would effectively expand the financing channels of the Group, improve the debt structure of the Group, enhance the long term debt ratio, improve the liquidity of the Group and provide funding for the Group's production and operations in a timely manner.

The Directors are of the view that the terms of the Sale and Purchase Agreements and Leaseback Agreements are agreed by the parties after arm's length negotiation on normal commercial terms and are fair and reasonable, and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

## **INFORMATION OF THE PARTIES**

The Company is principally engaged energy equipment industry for product research and development, production and sales.

The Lessor is a company established in the PRC with limited liability and is principally engaged in the financial leasing business and other financial businesses.

## **LISTING RULES IMPLICATIONS**

As one or more of the relevant applicable percentage ratios in respect of each of (i) the Sale and Purchase Agreements; and (ii) the Leaseback Agreements are more than 5% but all are less than 25%, the transactions contemplated under each of (i) the Sale and Purchase Agreements; and (ii) the Leaseback Agreements constitutes discloseable transactions of the Company and are subject to the

reporting and announcement requirements but is not subject to Shareholders' approval under Chapter 14 of the Listing Rules.

## DEFINITIONS

In this announcement, the following terms shall have the meanings set out below unless the context requires otherwise:

“Board”	the board of directors of the Company;
“Business Day(s)”	any day except Saturdays, Sundays and statutory holidays in the PRC;
“Company”	Shandong Molong Petroleum Machinery Company Limited* (山東墨龍石油機械股份有限公司) a company established in the PRC with limited liability, the H shares and A shares of which are listed on the Main Board of the Stock Exchange (stock code: 568) and the Shenzhen Stock Exchange (stock code: 002490) respectively;
“connected person(s)”	has the same meaning as ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Leased Assets”	Leased Assets I and Leased Assets II;
“Leased Assets I”	certain machinery equipment of the existing production lines, all of which shall be sold by the Company to the Lessor under Sale and Purchase Agreement I and shall be leased back by the Lessor to the Company according to Leaseback Agreement I;
“Leased Assets II”	certain machinery equipment of the existing production lines, all of which shall be sold by the Company to the Lessor under Sale and Purchase Agreement II and shall be leased back by the Lessor to the Company according to Leaseback Agreement II;
“Lease Term”	the lease term of 3 years under the Leaseback Agreements;
“Lessor”	Cosco Shipping Leasing Co., Ltd. (中遠海運租賃有限公司), a company established in the PRC with limited liability;

“Leaseback Agreements”	Leaseback Agreement I and Leaseback Agreement II;
“Leaseback Agreement I”	the leaseback agreement dated 10 April 2019 entered into between the Lessor and the Company, pursuant to which the Lessor has agreed to lease back Leased Assets I to the Company during the Lease Term;
“Leaseback Agreement II”	the leaseback agreement dated 10 April 2019 entered into between the Lessor and the Company, pursuant to which the Lessor has agreed to lease back Leased Assets II to the Company during the Lease Term;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	The People’s Republic of China, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“RMB”	Renminbi, the lawful currency of the PRC;
“Sale and Purchase Agreements”	Sale and Purchase Agreement I and Sale and Purchase Agreement II
“Sale and Purchase Agreement I”	the sale and purchase agreement dated 10 April 2019 entered into between the Lessor and the Company, pursuant to which the Company has agreed to sell and the Lessor agreed to purchase Leased Assets I at the consideration of RMB85,000,000;
“Sale and Purchase Agreement II”	the sale and purchase agreement dated 10 April 2019 entered into between the Lessor and the Company, pursuant to which the Company has agreed to sell and the Lessor agreed to purchase Leased Assets II at the consideration of RMB85,000,000;
“Shareholders”	the shareholders of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“%”	per cent.

By order the Board of

**Shandong Molong Petroleum Machinery Company Limited\***  
**Liu Yun Long**  
Chairman

Shandong, the PRC  
11 April 2019

*As at the date of this announcement, the Board comprises the executive Directors, namely Mr. Liu Yun Long, Mr. Liu Min, Mr. Zhang Yu Zhi and Mr. Li Zhi Xin; the non-executive Directors, namely Mr. Yao You Ling and Mr. Wang Quan Hong; and the independent non-executive Directors, namely Mr. Tang Qing Bin, Mr. Song Zhi Wang and Mr. Cai Zhong Jie.*

\* For identification purposes only